

TO: Jim Scully

FROM: Marketing Information & Analysis/Jacqueline Lee

SUBJECT: Merit Memphis Market Check

DATE: March 3, 1989

Beginning September 1988, Merit initiated an aggressive marketing program in Memphis to build Merit's share (2.0/SDI=55) and volume and to promote trial and conversion from Vantage (10.9/SDI=366). While the heavy-up program is scheduled to run through March 1989, additional retail, advertising and events support will run throughout the balance of 1989. An interim analysis of Merit's programs in Memphis will be issued shortly under separate cover.

This memo reports on the findings resulting from a market check conducted in Memphis on February 24. Accompanied by Division Manager John Hinman, stores were visited in a cross-section of trade classes and income areas. Samuelson-Leon, Memphis' largest tobacco distributor accounting for 21% of the market's volume, was also visited.

SUMMARY

- Sales: Information from both retailers and the Samuelson-Leon distributor indicate that Merit sales had improved since the heavy-up. Merit Ultra Lights appears to have made the greatest gains, although Merit Parent was thought to have improved as well. Sales of Merit Menthol, however, were said to be slow. As expected and confirming consumer tracking, Merit appears to perform better in higher income areas. Retailers were unable to assess any impact of Merit on Vantage, or other brands.
- Visibility/Availability: Merit was found on the Contract II position of B-displays in most pack outlets and merchandised on the bottom shelf of carton fixtures in most carton outlets. Although Merit carton fixture shelf talkers were not part of the heavy-up program, no other Merit POS was evident in-store. Outdoor presence consisted of two citings of Merit counterbalances; but of the billboards noted, none featured Merit. Visible inventory was good on all Merit packings, although in relatively smaller supply on the Ultra Lights packings. An out-of-stock was reported in only one store on the Merit Ultra Lights 100s Box packing.

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- Promotional Activity: Retailers cited good movement with a coupon, as few Merit \$3-carton/50¢-pack couponed product was still evident after almost one month at retail. Note that February represented Merit's second round of the \$3/50¢ promotion, with the first round occurring in December. Retailers cited especially quick movement with the B1G1Fs/B2G3Fs in November, and the 2-pack w/lighter promotion in October reportedly also went well.
- Competitive Activity: Although no Vantage coupons/promotions were found, DM Hinman did recall seeing Vantage B1G1Fs, \$2-carton coupons and more billboards during December 1988.

In-store \$2 on-carton couponing was widespread among both price value and full margin brands. Alpine (\$2-carton/B1G1Fs) was featured on B/BV displays, headercards, overhead pack racks and value centers. Inventory on both Alpine and Cambridge was good, but sales were said to be fair for Alpine and good for Cambridge. Marlboro Menthol sales were reported to be slow.

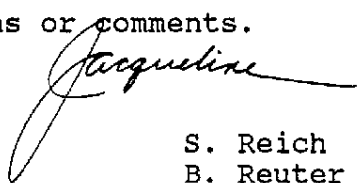
Please call if you have any questions or comments.

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Merit's heavy-up program consisted of a 25¢-off carton trade bonus reserve program, 10% gratis on packings not in distribution and \$15/case distribution allowances as well as the following:

MERIT MEMPHIS HEAVY-UP

| <u>Event</u> | <u>Date</u> |
|----------------------------------|-----------------------|
| Mid-South Fair/Sample 6s | Sep. |
| Media Support | Oct.-Dec. (1989) |
| Direct Mail (Blind Challenge II) | Oct.-Nov. & Jan.-Mar. |
| Counterbalance | Oct.-Mar. |
| Contract I/Set-Sell I | Oct. |
| 2-Pack w/Lighter | Oct. |
| In-store Sample 6s/B1G1F | Dec. |
| B1G1F (Pack Outlets) | Nov. |
| B2G3F (Carton Outlets) | Nov. |
| Contract V/Set-Sell II | Nov. |
| \$3 On-Carton Coupons | Dec. & Feb. |
| 50¢-Off Pack Coupons | Dec. & Feb. |
| Contract I & II | Dec. |
| Contract V/Set-Sell II | Jan. |
| Contract II | Feb. |
| 2-Pack w/Calculator | Mar. |
| Contract IV | Mar. |

Sales

- Most retailers said Merit's sales had improved somewhat versus prior to the brand's promotions. While Merit Parent was said to have gained, Merit Ultra Lights (particularly MUL 100s) was mentioned as making the greatest gains. Similar findings were reported by the Samuelson-Leon distributor.
- Generally, the brand reported better movement in higher versus lower income areas. Merit's menthol packings were said to move slowly even with promotions.
- Retailers were unable to assess any impact of Merit on Vantage, or other brands.

Availability/Visibility

- While Merit was in 100% of the stores visited, the brand did not carry full distribution (11 packings) in all stores. In one chain supermarket (1,600 CPW), Merit appeared to have lost three rows as a result of Marlboro's required total rows rule (which is about to change to required full margin rows). In addition, within the same store, Merit Ultra Lights 100s Box was out-of-stock. In general, visible inventory was adequate on all packings, with a relatively smaller supply on the Ultra Lights packings.

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Availability/Visibility (continued)

- The brand was located on the Contract II position of B-displays in most pack outlets and merchandised on the bottom shelf of carton fixtures. Except for the few \$3 on-carton coupon flaps sticking out, Merit did not stand out on the carton fixtures, as shelf talkers were not part of the heavy-up program. However, no other in-store Merit POS was evident.
- At the time of this market check, outdoor presence was minimal (no Merit billboards), although two Merit counter-balances were cited. However, DM Hinman commented that the brand did receive "big brand" exposure at the annual Mid-South Fair.

Promotional Activity

- Product was said to move quickly with the \$3 on-carton coupons and 50¢-off pack coupons occurring in December and February. In-store presence of Merit \$3/50¢ product was limited as of February 24. In addition, retailers commented on especially fast movement with the B1G1Fs and B2G3Fs which ran during November. Movement with the 2-pack w/lighter promotion which ran in October was reported to have been good as well.
- Note that the 50¢-off pack coupons were placed only in self-service, visible environments, which excludes most self-service package fixtures in supermarkets since the faces of packs are not visible. Two outlets did not receive the 50¢-off pack coupon promotion. In addition, some supermarkets refused the 50¢-off pack coupon promotion since their stores were promoting "double any coupon up to 60¢" to their customers and the supermarkets were unwilling to double a 50¢ cigarette pack coupon.

Competitive Activity

- Price Value: Alpine (w/\$2-carton coupons/B1G1F/25¢) was featured on B/BV displays and value centers w/header cards and on overhead pack displays. Both Alpine and Cambridge (w/\$2 and \$1-carton coupons) maintained good inventory on value centers. Sales of Cambridge were said to be good, while movement of Alpine was reportedly fair.

Malibu (\$3/30¢) was reportedly selling well, and this price-off brand was mispriced in a large supermarket chain, scanning at \$3.00 off generic prices. Viceroy sales at generic prices (w/\$2-carton coupons) were said to be good. Pyramid (w/o coupon) was noted in only one outlet.

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Competitive Activity (continued)

- Full Margin: Although no Vantage coupons/promotions were found, DM Hinman did recall finding Vantage B1G1Fs, \$2-carton coupons and more billboards during December 1988. Marlboro Menthol sales (w/\$2-off cartons) were also said to be slow. Capri performance was said to be fair. Newport Stripes movement was reportedly slow.
- \$3.00+ Couponing: Besides Merit, the only other brands reporting \$3.00+ on-carton coupons are: \$3.50 on Savvy and Chesterfield Lights; \$3.00 on Malibu (also 30¢-off pack VPR), full margin Viceroy (in limited quantities), Newport Stripes, Newport Lights and Eve 120s. Newport Stripes was also running a 2-pack w/make-up brush promotion.
- \$2.00 Couponing: Two dollar on-carton coupons were widespread on both price value and full margin brands:

- Price Value

| | |
|---------------------------|------------------------------|
| Cambridge | (also \$1.00) |
| Doral | (also \$1.00) |
| Falcon Lights | |
| Richland 20s | (also 20¢-pack) |
| American Lights | (also 20¢-pack, 50¢-2 packs) |
| Alpine | (also B1G1Fs, 25¢-pack) |
| Viceroy at generic prices | (also 30¢-pack) |
| Blk&Wht Generics/Prv Lb1s | (also \$1.00, 25¢-pack) |
| Richland 25s | |
| Players Lights 25s | (also \$1.00) |
| L&M 30s | |

- Full Margin

Barclay
Belair
Capri
Carlton
Chesterfield Kings (non-filter)
Kool
Lark
Lucky Strike
Marlboro Menthol ("introductory offer")
Pall Mall
Raleigh
True

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